

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
SUPPLEMENTAL RECORD REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY
D.T.E. 01-81

Date: February 14, 2003

Witness Responsible: Francisco C. DaFonte

DTE-RR Sup. 1-3:

In Bay State's Motion for Clarification at page 3, the Company states that "[a]ny restriction applied to the Company's physical gas purchases in the GCIM program (including those to meet storage injection requirements) creates an unintended opportunity for the Company to "game" the operation of the GCIM because the Company would be in a position to "select" which purchases (of total system requirements) to compare to the benchmark, after it makes all its domestic purchases."

- (A) Please demonstrate that "gaming", if it does occur, will be harmful to Bay State's customers under the GCIM. In your response, please differentiate any harmful effects of "gaming" on customers by customer class.
- (B) Please demonstrate that "gaming", if it does occur, will be harmful to Bay State under the GCIM.

Response: (A) If the GCIM is limited to 25% of residential purchases (rather than of the total normal year requirements), some of Bay State's domestic gas purchases will be included and some will be excluded from the GCIM calculations. This will create an incentive for Bay State to select domestic contracts for inclusion that maximize the sharing for the Company. This is in contrast to Bay State's proposed program whereby all domestic contracts are included in the GCIM calculations and no possibility for gaming exists.

The potential for gaming is illustrated through a hypothetical example based on two spot purchases made at the citygate. For the purposes of this example, it is assumed that the benchmark price will be the Tennessee Zone 6 citygate index with a hypothetical value of \$5.00/Dth. Further, it is assumed that the Company

purchases 5,000 Dth from Supplier A at \$6.00/Dth and 5,000 Dth from Supplier B at \$4.50/Dth. It is further assumed that the residential classes and C&I classes each represent 50% of Bay State's requirements. Using the above purchases, the Company could choose to include the purchase at \$4.50/Dth in the GCIM calculation resulting in a sharing of the \$0.50/Dth savings between the Company and the residential classes with the Company retaining \$0.375/Dth and the residential customers retaining \$0.125/Dth. Meanwhile, the C&I classes is allocated the purchase from Supplier A at \$6.00/Dth and, since purchases for the C&I classes are not included in the GCIM calculation, these customers end up paying an above market price for their supply. Even if it is decided that 50 percent of each of these hypothetical purchases will be included in the GCIM, the C&I customers are still disadvantaged since they alone must absorb their share of the above market purchase from Supplier A while Bay State absorbs the residential customer's share of the above market portion of this purchase since it is a net loss based on the GCIM formula.

(B) Bay State would not be adversely impacted by "gaming."